

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-03 H-02 PRS-01 PA-01 SAJ-01 AGR-05

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P R 151435Z JUL 76

FM AMEMBASSY WARSAW

TO SECSTATE WASHDC PRIORITY 2646

INFO AMEMBASSY BELGRADE

AMEMBASSY BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

USMISSION NATO

C O N F I D E N T I A L SECTION 1 OF 2 WARSAW 4927

E.O. 11652: GDS

TAGS: ECON, PL

SUBJECT: GOVERNMENT REVISES PRICE PROPOSALS

1. SUMMARY. POLISH PREMIER JAROSZEWICZ PROPOSED NEW MEAT-PRICE INCREASES ON JULY 13. AT THE SAME TIME, THE POLISH PRESS MADE PUBLIC A DECISION OF THE COUNCIL OF MINISTERS TO INCREASE SUPPLY PRICES TO FARMERS AS WELL AS TO RAISE COSTS TO FARMERS FOR SELECTED MEANS OF PRODUCTION. END SUMMARY.

2. ACCORDING TO THE POLISH PRESS OF JULY 14, JAROSZEWICZ PROPOSED CHANGES IN THE STRUCTURE OF FOOD PRICES AT THE JULY 13 SESSION OF THE POLITBIURO. JAROSZEWICZ CALLED FOR INCREASES AVERAGING 35 PER CENT DURING 1976 IN THE  
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PRICES MEAT, POULTRY, AND MEAT PRODUCTS, BUT ALSO

ANNOUNCED A CONTINUED FREEZE ON THE PRICES OF ALL OTHER BASIC FOODSTUFFS THAT NOW FALL WITHIN THE FIXED-PRICE SYSTEM. COMPENSATORY WAGE, FAMILY SUPPLEMENT, PENSION, AND OTHER INCOME BENEFITS REPORTEDLY ROUND OUT JAROSZEWICZ'S PACKAGE.

3. INCREASED PAYMENTS TO FARMERS FOR VARIOUS AGRICULTURAL PRODUCTS AND INCREASED PRICES FOR FARM SUPPLIES, SERVICES, AND EQUIPMENT, INITIALLY PROPOSED JUNE 25, WERE APPROVED BY THE COUNCIL OF MINISTERS JULY 13. HIGHER PAYMENTS TO FARMERS UNDER THIS SYSTEM BEGAN JULY 14. FARMERS WILL PAY MORE FOR SELECTED MEANS OF PRODUCTION FROM JULY 15. ACCORDING TO THE COMMUNIQUE OF THE COUNCIL OF MINISTERS, THE NET EFFECT OF THE MEASURES WILL BE AN INCREASE OF 12 BILLION ZLOTYS IN FARMERS' INCOMES.

4. THE COUNCIL OF MINISTERS ALSO APPROVED ON JULY 13 INCREASES IN THE COSTS OF BUILDING MATERIALS, EFFECTIVE JULY 15. A SWEETENER IN THE FORM OF REMISSION OF ONE-BILLION ZLOTYS OF BANK CREDITS PREVIOUSLY EXTENDED FOR FARM-BUILDING CONSTRUCTION WAS ALSO ANNOUNCED, BUT NOT SPELLED OUT IN DETAIL.

5. JAROSZEWICZ DID NOT ANNOUNCE A DATE FOR THE RISE IN MEAT PRICES. ACCORDING TO THE PUBLISHED SCENARIO, THE GOVERNMENT PROPOSAL WHEN IT IS COMPLETED, WILL BE SUBMITTED TO THE APPROPRIATE SEJM COMMITTEES FOR REVIEW. FOLLOWING DISCUSSION IN THESE COMMITTEES, CONSULTATIONS WILL BE HELD THROUGHOUT THE COUNTRY, ESPECIALLY IN FACTORIES. AT THE CONCLUSION OF THESE CONSULTATIONS, THE PROPOSALS WILL BE BROUGHT BEFORE THE SEJM FOR FINAL ACTION.

6. THE PRICES OF BUILDING MATERIALS HAVE BEEN INCREASED BY THE FOLLOWING AMOUNTS (ALL FIGURES ARE PERCENTAGES):

CEMENT	60
BRICKS	30
SLAKED LIME	40
ASBESTOS-CEMENT PRODUCTS	20
EARTHENWARE PIPING AND SANITATION	

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PRODUCTS	30
METALLURGICAL PRODUCTS	40
WOOD AND WOODEN MATERIALS	45

7. COMMENT: AN INCREASE IN THE PRICE OF MEAT CANNOT HAVE AN IMPACT ON MEAT SUPPLIES FOR MANY MONTHS. AS AN INTERIM MEASURE, THE GOVERNMENT HAS APPARENTLY DECIDED TO IMPORT MEAT, BUT IT WILL NOT BE FINANCIALLY POSSIBLE

TO SUSTAIN A HIGH LEVEL OF IMPORTS OVER AN EXTENDED PERIOD OF TIME. WE EXPECT THAT MEAT SUPPLIES WILL RETURN TO THEIR PRESENT LOW LEVELS LONG BEFORE ANY INCREASE IN DOMESTIC PRODUCTION IS ACHIEVED.

8. BY SETTLING ON A LOWER INITIAL INCREASE FOR MEAT AND POULTRY PRICES AND LIMITING THE RANGE OF THE PRICE RISES TO A SINGLE COMMODITY GROUP, THE GOVERNMENT HAS NOW OPTED FOR THE LONG-HAUL APPROACH TO INTRODUCING A MORE REALISTIC FOOD-PRICE STRUCTURE. IT APPEARS THAT THE PRICE OF MEAT AND, EVENTUALLY, OF OTHER BASIS FOOD-STUFFS, WILL BE SUBJECT TO PERIODIC REVISION, PERHAPS ANNUALLY. THESE GRADUAL PRICE INCREASES MAY INITIALLY BE MORE PALATABLE TO THE PUBLIC THAN THE JUNE 25 PROPOSALS, BUT, IF THEY ARE TO BE EFFECTIVE, THE GOVERNMENT MUST FOLLOW A RESTRICTIVE WAGE-INCREASE POLICY.

9. IT IS NOTEWORTHY THAT THE FORMULA DEVELOPED FOR CON-SULTATIONS ON FOODSTUFF PRICES HAS NOT BEEN APPLIED TO THE PRICE CHANGES THAT AFFECT FARM PRODUCTION. WE DO NO KNOW WHAT THE REACTION OF PRIVATE FARMERS WILL BE TO THE NEW PRICES, BUT, BASED ON OUR CONVERSATION WITH A HIGHLY RESPECTED AGRICULTURAL EXPERT, WE DOUBT THAT THE PRICE CHANGES WILL STIMULATE PRODUCTION. THE SHORT-RUN EFFECT MAY BE TO ENCOURAGE HEAVY ANIMAL SLAUGHTERING IN THE FALL, A RESULT THAT WOULD HAVE SERIOUS LONG-RANGE CONSEQUENCES FOR DOMESTIC MEAT SUPPLIES. OUR SOURCE SUGGESTED THAT FREQUENT GOVERNMENT POLICY SHIFTS DURING THE PAST TWO YEARS HAVE UNDERMINED THE PRIVATE FARMER'S CONFIDENCE IN HIS OWN FUTURE AND DISCOURAGED THE LONG-TERM PLANNING AND INVESTMENT NECESSARY TO INCREASE

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STR-04 CEA-01 L-03 H-02 PRS-01 PA-01 SAJ-01 AGR-05

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P R 151435Z JUL 76  
FM AMEMBASSY WARSAW  
TO SECSTATE WASHDC PRIORITY 2647  
INFO AMEMBASSY BELGRADE  
AMEMBASSY BERLIN  
AMEMBASSY BUCHAREST  
AMEMBASSY BUDAPEST  
AMEMBASSY MOSCOW  
AMEMBASSY PRAGUE  
AMEMBASSY SOFIA  
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C O N F I D E N T I A L SECTION 2 OF 2 WARSAW 4927

PRODUCTION. HE SUGGESTED THAT THE PRESENT MEASURES MAY BE INTENDED TO CONVINCE THE INDUSTRIAL WORK FORCE THAT THE GOVERNMENT IS NOT BEING TO GENEROUS WITH THE FARMERS. THIS MIGHT HAVE A FAVORABLE PSYCHOLOGICAL IMPACT ON INDUSTRIAL WORKERS AND HELP GET THEM TO ACCEPT HIGHER FOOD PRICES.

10. THE DECISION NOT TO RAISE BREAD PRICES, VIEWED IN THE LIGHT OF A 45 PERCENT INCREASE IN THE COST OF INDUSTRIALLY PREPARED ANIMAL FEED, SEEMS CERTAIN TO PRODUCE WIDESPREAD USE OF BREAD AS FEED. PRESUMABLY THE GOVERNMENT WILL FIND IT NECESSARY TO INTRODUCE SOME COUNTERMEASURES.

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11. THE SUPPLIES OF THE MEANS OF AGRICULTURAL PRODUCTION TO PRIVATE FARMERS HAVE TRADITIONALLY BEEN INADEQUATE. IN OUR JUDGMENT, INCREASING THE PRICES OF THE MEANS OF PRODUCTION WILL, OVER THE MEDIUM AND LONG TERM, FURTHER SLOW THE PROCESS OF MODERNIZATION IN PRIVATE AGRICULTURE.

12. ALTHOUGH THE CHANGES IN BUILDING-MATERIALS PRICES ARE LINKED IN THE COMMUNIQUE OF THE COUNCIL OF MINISTERS WITH THE CHANGES IN AGRICULTURAL PRICES, WE BELIEVE THE NEW PRICES WILL APPLY TO ALL PURCHASES OF BUILDING MATERIALS. THIS WAS THE INTENT OF THE JUNE 25 PROPOSALS. ASSUMING THAT ALL PURCHASERS WILL PAY THE SAME, HIGHER PRICE FOR CONSTRUCTION MATERIALS, WE EXPECT MANY POLES WILL FIND THE GOVERNMENT'S PRESENTATION OF THIS PRICE CHANGE DISINGENOUS.

13. NO OFFICIAL DESCRIPTION OF THE FINANCIAL COMPENSATION TO BE OFFERED JOINTLY WITH THE MEAT-PRICE INCREASE

HAS APPEARED IN THE PRESS. HOWEVER, ZYGMUNT SZELIGA, WHOSE POLITYKA ARTICLES FREQUENTLY REFLECT GOVERNMENT VIEWS, SUGGESTED AN APPROACH TO COMPENSATION IN THE JULY 9 EDITION. SZELIGA SAID HE FAVORED A WAGE INCREASE RATHER THAN THE SEPARATE "SUPPLEMENT" PROPOSED JUNE 25. MANY PEOPLE, HE WROTE, FEARED THAT THE SUPPLEMENT MIGHT BE TEMPORARY. IN HIS VIEW, THE WAGE INCREASE SHOULD BE SMALL, SINCE, AS HE POINTED OUT ELSEWHERE IN THE ARTICLE, THE PRICE INCREASES OUGHT TO BE GRADUAL. HE ALSO ADVISED THAT THE AMOUNT OF THE INCREASE SHOULD BE THE SAME FOR ALL. ADMITTING THE INJUSTICE OF THIS APPROACH, HE NEVERTHELESS CONCLUDED THAT IT WAS THE SOLUTION MOST LIKELY TO GAIN GENERAL ACCEPTANCE.

14. CONVERSATIONS WITH GOVERNMENT OFFICIALS, JOURNALISTS, AND FOREIGN DIPLOMATIC OBSERVERS ON JULY 14 REVEALED A CONSENSUS THAT THE PROPOSED MEAT-AND-POULTRY-PRICE INCREASE WERE LIKELY TO GAIN PUBLIC ACCEPTANCE AFTER FURTHER MODIFICATION. THE PROCESS OF IMPLEMENTING THE RISES WOULD NOT BE HURRIED. THERE WAS GENERAL SKEPTICISM THAT THE ALLEGED INCREASES IN OVERALL FARM INCOME WOULD EITHER MATERIALIZE OR ACT AS AN INCENTIVE TO FARMERS TO PRODUCE MORE. THE GOVERNMENT ESTIMATES THAT

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THERE WILL BE A 27-BILLION ZLOTY NET INCREASE IN FARMER EXPENDITURE AND A 38-BILLION ZLOTY INCREASE IN GROSS FARM INCOME ANNUALLY. ADDITIONALLY, THE ONE-BILLION ZLOTY LOAN REMITTANCE COULD SERVE TO EASE THE ACCEPTANCE OF THE NEW SITUATION BY FARMERS.

DAVIES

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## Message Attributes

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